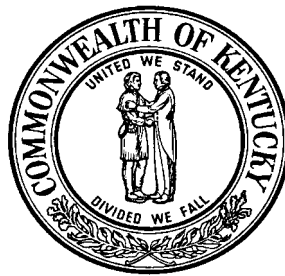


**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY FISCAL COURT

June 30, 2008

The Auditor of Public Accounts has completed the audit of the Metcalfe County Fiscal Court for fiscal year ended June 30, 2008. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Metcalfe County, Kentucky.

The financial statements of the Metcalfe County Health Services, Inc. (Nursing Home), a discretely presented component unit, have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Metcalfe County, Kentucky, uses to prepare its financial statements. As a result, we have issued a qualified opinion on the discretely presented component unit.

Financial Condition:

The fiscal court had net assets of \$8,463,574 as of June 30, 2008. The fiscal court had unrestricted net assets of \$3,445,723 in its governmental activities as of June 30, 2008. The fiscal court had total debt principal as of June 30, 2008 of \$6,061,084 with \$737,480 due within the next year.

The fiscal court's discretely presented component unit (Nursing Home) had net assets of \$2,684,102 as of June 30, 2008. The discretely presented component unit had net cash and cash equivalents of \$90,594.

Report Comments:

- 2008-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process
- 2008-02 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2008-03 The Fiscal Court Should Implement Stronger Internal Controls Over Occupational Tax Billing, Collection, And Reporting
- 2008-04 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2008-05 The Fiscal Court Should Advertise For Bid On All Construction Projects Exceeding \$20,000 To Ensure Compliance With All Federal And State Laws And Regulations
- 2008-06 The County Judge Executive Should Publicly Open Competitive Sealed Bids In Accordance With The County's Administrative Code
- 2008-07 The Fiscal Court Should Either Deal Directly With The State Price Contract Vendor Or Advertise For Bid On Purchases That Exceeded \$20,000 In Accordance With KRS 424.260
- 2008-08 \$124,868 Of Expenditures Were Paid Before Fiscal Court Approved Payment And \$308,014 Of Expenditures Were Not Approved By Fiscal Court
- 2008-09 The Fiscal Court Should Approve All Interfund Transfers In Accordance With KRS 68.290
- 2008-10 The Fiscal Court Has \$13,200 Of Questionable Costs And Activities Relating To The Boswell Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award
- 2008-11 The Fiscal Court Has Questionable Activities And Subsequent Questioned Costs Of \$190,000 Relating To The Garmon/Perry Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
METCALFE COUNTY FISCAL COURT
June 30, 2008
(Continued)

Report Comments: (Continued)

2008-12 The Fiscal Court Should Reimburse The Kentucky Environmental And Public Protection Cabinet \$7,870 For Unexpended 2007 Litter Abatement Grant Funds Resulting From Unallowable In Kind Expenditures

Deposits:

The fiscal court and component unit's deposits were insured and collateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT.....	2
METCALFE COUNTY OFFICIALS.....	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	47
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	52
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	54
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	58
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	63
COMMENTS AND RECOMMENDATIONS.....	67
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
The Honorable Greg Wilson, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Metcalfe County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Metcalfe County Health Services, Inc., a discretely presented component unit, which represents 100 percent, of the assets and revenues of the discretely presented component opinion unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Metcalfe County Health Services, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of other auditors provides a reasonable basis for our opinions.

As described in Note 1, Metcalfe County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of Metcalfe County Health Services, Inc., a discretely presented component unit of the Metcalfe County Fiscal Court, are presented in accordance with the accrual basis of accounting and therefore include certain accruals required by accounting principles generally accepted in the United States of America that are not presented in accordance with the modified cash basis of accounting. The amounts by which these accruals affect the financial statements are as follows: 49% increase in assets, 32% increase in liabilities, 21% increase in revenues, and 8% increase in expenses.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

The Honorable Greg Wilson, Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

In our opinion, based on our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined had the Metcalfe County Health Services, Inc., been prepared using the same basis of accounting as Metcalfe County, Kentucky, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit of Metcalfe County, Kentucky as of June 30, 2008 and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Metcalfe County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 2009, on our consideration of Metcalfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
The Honorable Greg Wilson, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process
- 2008-02 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2008-03 The Fiscal Court Should Implement Stronger Internal Controls Over Occupational Tax Billing, Collection, And Reporting
- 2008-04 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2008-05 The Fiscal Court Should Advertise For Bid On All Construction Projects Exceeding \$20,000 To Ensure Compliance With All Federal And State Laws And Regulations
- 2008-06 The County Judge Executive Should Publicly Open Competitive Sealed Bids In Accordance With The County's Administrative Code
- 2008-07 The Fiscal Court Should Either Deal Directly With The State Price Contract Vendor Or Advertise For Bid On Purchases That Exceeded \$20,000 In Accordance With KRS 424.260
- 2008-08 \$124,868 Of Expenditures Were Paid Before Fiscal Court Approved Payment And \$308,014 Of Expenditures Were Not Approved By Fiscal Court
- 2008-09 The Fiscal Court Should Approve All Interfund Transfers In Accordance With KRS 68.290
- 2008-10 The Fiscal Court Has \$13,200 Of Questionable Costs And Activities Relating To The Boswell Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award
- 2008-11 The Fiscal Court Has Questionable Activities And Subsequent Questioned Costs Of \$190,000 Relating To The Garmon/Perry Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award
- 2008-12 The Fiscal Court Should Reimburse The Kentucky Environmental And Public Protection Cabinet \$7,870 For Unexpended 2007 Litter Abatement Grant Funds Resulting From Unallowable In Kind Expenditures

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 9, 2009

METCALFE COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Greg Wilson	County Judge/Executive
Danny Joe Shive	Magistrate
Arkley Phelps	Magistrate
Dale Rowlett	Magistrate
Scotty Mosby	Magistrate

Other Elected Officials:

Barry D. Gilley	County Attorney
Jimmy Shive	Jailer
Carol E. England	County Clerk
Tommy Garrett	Circuit Court Clerk
Rondal Shirley	Sheriff
Michael Welsh	Property Valuation Administrator
Larry Wilson	Coroner

Appointed Personnel:

Vickie Stephens	County Treasurer
Lorrie A. Boston	Finance Officer/Occupational Tax Collector

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>	<u>Component Unit</u> <u>Metcalf County</u> <u>Health Services, Inc.</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,445,756	\$ 90,594
Note Receivable (Nursing Home)	40,000	
Accounts Receivable		1,069,177
Inventory		13,084
Prepaid Insurance		51,039
Interest Receivable		3,348
Total Current Assets	<u>3,485,756</u>	<u>1,227,242</u>
Noncurrent Assets:		
Note Receivable (Nursing Home)	845,000	
Capital Assets - Net of Accumulated Depreciation		
Land	501,025	76,288
Land Improvements		38,028
Buildings	7,466,574	1,356,159
Other Equipment	519,085	464,991
Vehicles and Equipment	196,304	
Infrastructure	1,510,914	
Funded Depreciation Accounts		810,714
Residents' Accounts		19,001
Total Noncurrent Assets	<u>11,038,902</u>	<u>2,765,181</u>
Total Assets	<u>14,524,658</u>	<u>3,992,423</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable		233,712
Resident's Accounts		19,001
Payroll Withholdings		519
Accrued Management Fee		18,500
Accrued Payroll		119,241
Accrued Vacation		32,348
Notes Payable		40,000
Bonds Payable	210,000	
Financing Obligations Payable	527,480	
Total Current Liabilities	<u>737,480</u>	<u>463,321</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

	Primary Government	Component Unit
	Governmental	Metcalf County
	Activities	Health Services, Inc.
Noncurrent Liabilities:		
Notes Payable	\$	\$ 845,000
Bonds Payable	4,080,000	
Financing Obligations Payable	1,243,604	
Total Noncurrent Liabilities	5,323,604	845,000
Total Liabilities	6,061,084	1,308,321
NET ASSETS		
Invested in Capital Assets,		
Net of Related Debt	5,017,818	1,050,466
Restricted For:		
Capital Projects		2,027
Debt Service	33	
Unrestricted	3,445,723	1,631,609
Total Net Assets	\$ 8,463,574	\$ 2,684,102

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,095,333	\$ 88,216	\$ 555,601	\$ 2,220
Protection to Persons and Property	449,017	2,910	67,153	49,583
General Health and Sanitation	282,275		482,599	
Social Services	16,320			
Roads	1,244,291		895,049	315,511
Debt Service	341,868			
Capital Projects	267,160			188,448
Total Governmental Activities	<u>\$ 3,696,264</u>	<u>\$ 91,126</u>	<u>\$ 2,000,402</u>	<u>\$ 555,762</u>
Component Unit:				
Metcalfe County Health Services, Inc.	<u>\$ 4,838,499</u>	<u>\$ 5,019,818</u>		

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Unrestricted Investment Earnings

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Component Unit</u>
\$ (449,296)	\$
(329,371)	
200,324	
(16,320)	
(33,731)	
(341,868)	
(78,712)	
<u>(1,048,974)</u>	
	<u>181,319</u>
326,712	
36,976	
50,802	
751,491	
337,906	
88,995	
418,612	
94,122	
<u>2,105,616</u>	
1,056,642	181,319
<u>7,406,932</u>	<u>2,502,783</u>
<u>\$ 8,463,574</u>	<u>\$ 2,684,102</u>

The accompanying notes are an integral part of the financial statements

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METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	State Grants Fund	Ambulance Fund
ASSETS					
Cash and Cash Equivalents	<u>\$ 1,018,220</u>	<u>\$ 961,224</u>	<u>\$ 63,826</u>	<u>\$ 588,870</u>	<u>\$ 521,256</u>
Total Assets	<u>1,018,220</u>	<u>961,224</u>	<u>63,826</u>	<u>588,870</u>	<u>521,256</u>
FUND BALANCES					
Reserved for:					
Encumbrances	17,411	13,519	338	3,808	
Grants		26,273		306,860	
Unreserved:					
General Fund	1,000,809				
Special Revenue Funds		921,432	63,488	278,202	521,256
Debt Service Fund					
Total Fund Balances	<u>\$ 1,018,220</u>	<u>\$ 961,224</u>	<u>\$ 63,826</u>	<u>\$ 588,870</u>	<u>\$ 521,256</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Metcalfe County Public Properties Corporation Sinking Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>\$ 33</u>	<u>\$ 292,327</u>	<u>\$ 3,445,756</u>
<u>33</u>	<u>292,327</u>	<u>3,445,756</u>
	18,664	53,740
	25	333,158
		1,000,809
	273,638	2,058,016
<u>33</u>		<u>33</u>
<u>\$ 33</u>	<u>\$ 292,327</u>	<u>\$ 3,445,756</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 3,445,756
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Notes Receivable Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds	885,000
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	12,088,037
Accumulated Depreciation	(1,894,135)
Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(1,771,084)
Bond Debt	(4,290,000)
Net Assets of Governmental Activities	<u>\$ 8,463,574</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Jail Fund	State Grants Fund
REVENUES				
Taxes	\$ 1,161,682	\$	\$	\$
In Lieu Tax Payments	137,933			
Excess Fees	88,995			
Licenses and Permits	897			
Intergovernmental	170,194	1,221,322	70,063	432,861
Miscellaneous	133,423	362,233		3,416
Interest	29,403	39,484	911	5,648
Total Revenues	<u>1,722,527</u>	<u>1,623,039</u>	<u>70,974</u>	<u>441,925</u>
EXPENDITURES				
General Government	677,389			
Protection to Persons and Property	205,495		110,062	
General Health and Sanitation	104,061	1,267		175,446
Social Services	4,715			
Roads		1,029,002		
Debt Service	121,668	95,849		
Capital Projects	18,535			29,478
Administration	395,957	95,387	7,019	
Total Expenditures	<u>1,527,820</u>	<u>1,221,505</u>	<u>117,081</u>	<u>204,924</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>194,707</u>	<u>401,534</u>	<u>(46,107)</u>	<u>237,001</u>
Other Financing Sources (Uses)				
Debt Issuance	55,606	28,425		
Transfers from Other Funds	71,033			
Transfers to Other Funds	(53,442)			(7,220)
Total Other Financing Sources (Uses)	<u>73,197</u>	<u>28,425</u>		<u>(7,220)</u>
Net Change in Fund Balances	267,904	429,959	(46,107)	229,781
Fund Balances - Beginning	750,316	531,265	109,933	359,089
Fund Balances - Ending	<u>\$ 1,018,220</u>	<u>\$ 961,224</u>	<u>\$ 63,826</u>	<u>\$ 588,870</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Ambulance Fund	Metcalfe County Public Properties Sinking Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 198,499	\$	\$	\$ 1,360,181
			137,933
			88,995
			897
1,653	390,526	278,227	2,564,846
		6,860	505,932
15,961	79	2,636	94,122
<u>216,113</u>	<u>390,605</u>	<u>287,723</u>	<u>4,752,906</u>
20,700		16,260	714,349
183,378		78,843	577,778
		975	281,749
			4,715
			1,029,002
	401,053		618,570
		223,866	271,879
		7,201	505,564
<u>204,078</u>	<u>401,053</u>	<u>327,145</u>	<u>4,003,606</u>
12,035	(10,448)	(39,422)	749,300
			84,031
	8,858	60,662	140,553
		(79,891)	(140,553)
	<u>8,858</u>	<u>(19,229)</u>	<u>84,031</u>
12,035	(1,590)	(58,651)	833,331
509,221	1,623	350,978	2,612,425
<u>\$ 521,256</u>	<u>\$ 33</u>	<u>\$ 292,327</u>	<u>\$ 3,445,756</u>

The accompanying notes are an integral part of the financial statements.

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**METCALFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

METCALFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 833,331

Amounts Reported For Governmental Activities In The Statement
of Activities is Different Because:

Governmental Funds Report Capital Outlays as Expenditures. However, in the
Statement of Activities the Cost of those Assets is Allocated Over their
Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	741,801
Depreciation Expense	(321,442)
Asset Disposal, Net Book Value	(14,154)
Disposal of Asset Held for Resale	(394,100)

Repayment of Note Receivable Provides Current Financial Resources
to Governmental Funds. These Transactions, however, Have No Effect
on Net Assets.

(40,000)

The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current
Financial Resources to Governmental Funds. While Repayment of
Principal On Debt Consumes The Current Financial Resources
of Governmental Funds. These Transactions, However,
Have No Effect on Net Assets.

Financing Obligation Proceeds	(84,031)
Financing Obligations Principal Payments	130,237
Bond Principal Payments	205,000

Change in Net Assets of Governmental Activities	\$ 1,056,642
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	25
NOTE 2.	DEPOSITS	33
NOTE 3.	CAPITAL ASSETS	33
NOTE 4.	NOTE RECEIVABLE	35
NOTE 5.	SHORT-TERM DEBT	35
NOTE 6.	LONG-TERM DEBT	36
NOTE 7.	OPERATING LEASES	41
NOTE 8.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	42
NOTE 9.	EMPLOYEE RETIREMENT SYSTEM	42
NOTE 10.	INSURANCE	42
NOTE 11.	SUBSEQUENT EVENTS	43
NOTE 12.	NOTES PAYABLE FOR COMPONENT UNIT - METCALFE COUNTY HEALTH SERVICES, INC.	43
NOTE 13.	FUNDED DEPRECIATION ACCOUNT FOR COMPONENT UNIT - METCALFE COUNTY HEALTH SERVICES, INC.	43
NOTE 14.	TEMPORARILY RESTRICTED ASSETS FOR COMPONENT UNIT - METCALFE COUNTY HEALTH SERVICES, INC.	43

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

Metcalf County Health Services, Inc., a discretely presented component unit of Metcalfe County Fiscal Court presents their financial statements in accordance with generally accepted accounting principles. The discretely presented component unit has adopted the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when incurred. The funds are accounted for on an economic resource measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Assets. All revenues and expenses are recognized on the Statement of Activities regardless of when the cash transaction occurs.

B. Reporting Entity

The financial statements of Metcalfe County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as part of the county's primary government using the blending method.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Metcalfe County Public Properties Corporation

The Metcalfe County Fiscal Court (Fiscal Court) has the authority to appoint a voting majority of the Metcalfe County Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC; legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Metcalfe County's financial statements.

Discretely Presented Component Unit

The component unit's column in the government-wide financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

Metcalfe County Health Services, Inc.

On January 13, 1976, Metcalfe County Fiscal Court (Fiscal Court) authorized a plan for financing a nursing home project in Metcalfe County (County). The County formed Metcalfe Health Care Center Corporation, a non-stock, non-profit, public, and charitable corporation, for such acquisition and construction. Metcalfe County has leased the property, plant, and equipment from the Corporation at an annual rental equal to the total amount of annual debt requirement on the bonds issued and sold by the Corporation. A second non-stock, non-profit, public, and charitable corporation, Metcalfe County Health Services, Inc., was formed by the County to sub-lease and operate the nursing home at the same annual rate.

The bond sale was closed March 3, 1977, and the operations of the nursing home started at this date by Metcalfe County Health Services, Inc. The nursing home is operated with two levels of care, skilled care and personal care. The nursing home has seventy-one skilled care beds and thirty personal care beds. The nursing home serves residents principally from Metcalfe County and the surrounding area.

The Corporation is exempt from federal income tax as an organization described in Section 501(c) 3 of the Internal Revenue Code, classified as other than a private foundation.

Audited financial statements for Metcalfe County Health Services, Inc., a discretely presented component unit, may be requested by contacting Metcalfe County Health Services, Inc., 701 Skyline Drive, Edmonton, KY 42129.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Metcalfe County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Metcalfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Metcalfe County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Metcalfe County does not report any business-type activities. Fiduciary funds are not included in these financial statements due to the availability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 1, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale in April following the delinquency date.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. Since Metcalfe County does not have any proprietary funds, its major funds are determined using governmental funds only. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail revenues and expenditures of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

State Grants Fund - The primary function of this fund is to account for revenues and expenditures from state grant money.

Ambulance Fund - This fund is used to account for revenues and expenditures for the ambulance service. The primary sources of revenue for this fund are real and personal property, motor vehicle, and other taxes. Expenditures are for protection to persons and property.

Metcalfe County Public Properties Corporation Sinking Fund - The primary function is to account for the accumulation of resources for the payment of general and long-term debt principal and interest. Debt service is provided by rental payments in the amount of the bond payments from Administrative Office of the Courts, Commonwealth of Kentucky.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grants Fund, Disaster and Emergency Services Fund, Courthouse Renovation Fund, Spay and Neuter Fund, Homeland Security Fund, and Metcalfe County Public Properties Construction Fund.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, State Grants Fund, Ambulance Fund, Local Government Economic Assistance Fund, Federal Grants Fund, Disaster and Emergency Services Fund, Courthouse Renovation Fund, Spay and Neuter Fund, and Homeland Security Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Metcalfe County Public Properties Corporation Sinking Fund is presented as a debt service fund. The debt service fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Capital Projects Fund:

The Metcalfe County Public Properties Construction Fund is presented as a capital projects fund. The capital projects fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Vehicles	\$ 1,000	3-25
Infrastructure	\$ 10,000	10-50

Discretely Presented Component Unit - Metcalfe County Health Services, Inc.

Property, plant, and equipment are stated at cost. It is the Health Care Center's policy to capitalize property and equipment whose expected life is longer than one year, and betterments and improvements that extend the life or increase the value of existing property and equipment. The capitalized assets are depreciated on the straight-line method over the estimated useful lives of the related assets as follows:

	Useful Life (Years)
Buildings and Land Improvements	20-40
Equipment and Furnishings	5-10

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Metcalfe County Public Properties Corporation Sinking Fund. The Metcalfe County Public Properties Corporation Sinking Fund consists of funds related to the debt service requirements of a bond issuance. The Department for Local Government does not require these funds to be budgeted.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Metcalfe County Fiscal Court: Edmonton Metcalfe County Industrial Development Authority.

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Metcalfe County Fiscal Court.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Joint Ventures (Continued)

Ambulance Service Corporation, Inc.

The Metcalfe County Fiscal Court has retained an ongoing financial responsibility for the Ambulance Service Corporation, Inc. (Ambulance Service). The Ambulance Service is a joint venture among Barren County Fiscal Court, City of Edmonton, City of Glasgow, TJ Sampson Community Hospital, and Metcalfe County Fiscal Court to provide emergency medical care service and transportation to the citizens of Barren County, City of Glasgow, and Metcalfe County. Each participating entity is responsible for a proportionate part of any deficit (10 percent of deficit for each board member.) The Fiscal Court has two board members; therefore, the Fiscal Court is responsible for 20 percent of any deficits of the Ambulance Service.

Barren/Metcalfe Emergency Communications Center

The Metcalfe County Fiscal Court, Barren County Fiscal Court, City of Glasgow, City of Cave City, City of Park City, City of Hiseville, and City of Edmonton entered into an interlocal agreement to provide enhanced 911 services to the citizens of Metcalfe County and Barren County. The interlocal agreement established Barren/Metcalfe Emergency Communications Center (BMECC). Under the agreement, the Metcalfe County Fiscal Court is required to establish and collect 911 fees. These 911 fees are to be remitted to BMECC.

Edmonton/Metcalfe County 911 Board

The Metcalfe County Fiscal Court (Fiscal Court) and City of Edmonton entered into an interlocal agreement to provide 911 services to the citizens of Metcalfe County. On September 14, 1993, the Fiscal Court voted to "share 50/50 the cost of police dispatching" with the City of Edmonton.

Green River Animal Shelter

The Metcalfe County Fiscal Court and Adair County Fiscal Court entered into an interlocal agreement for the establishment and maintenance of the Green River Animal Shelter.

L. Accounts Receivable For Component Unit - Metcalfe County Health Services, Inc.

The direct write-off method has been used for bad debts. Management does not believe there are significant uncollectible amounts in accounts receivable. The bad debt write-off was \$20,619 for the year ended June 30, 2008.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits of the County and its component units were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 501,025	\$	\$	\$ 501,025
Total Capital Assets Not Being Depreciated	501,025			501,025
Capital Assets, Being Depreciated:				
Buildings	7,900,569	327,474		8,228,043
Other Equipment	982,546	53,627	(5,500)	1,030,673
Vehicles and Equipment	368,014	55,965	(14,270)	409,709
Infrastructure	1,613,852	304,735		1,918,587
Total Capital Assets Being Depreciated	10,864,981	741,801	(19,770)	11,587,012
Less Accumulated Depreciation for:				
Buildings	(662,787)	(98,682)		(761,469)
Other Equipment	(432,275)	(79,643)	330	(511,588)
Vehicles and Equipment	(186,467)	(32,224)	5,286	(213,405)
Infrastructure	(296,780)	(110,893)		(407,673)
Total Accumulated Depreciation	(1,578,309)	(321,442)	5,616	(1,894,135)
Total Capital Assets, Being Depreciated, Net	9,286,672	420,359	(14,154)	9,692,877
Governmental Activities Capital Assets, Net	\$ 9,787,697	\$ 420,359	\$ (14,154)	\$ 10,193,902

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental Activities:

General Government	\$	84,083
Protection to Persons and Property		40,604
General Health and Sanitation		526
Social Services		11,605
Recreation and Culture		13,816
Roads, Including Depreciation of General Infrastructure Assets		<u>170,808</u>
Total Depreciation Expense - Governmental Activities	\$	<u>321,442</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 76,288	\$	\$	\$ 76,288
Total Capital Assets Not Being Depreciated	76,288			76,288
Capital Assets, Being Depreciated:				
Land Improvements	52,559	5,500		58,059
Buildings and Improvements	2,273,251	116,245		2,389,496
Equipment and Furnishings	1,132,927	48,173		1,181,100
Total Capital Assets Being Depreciated	3,458,737	169,918		3,628,655
Less Accumulated Depreciation For:				
Land Improvements	(18,346)	(1,685)		(20,031)
Buildings and Improvements	(968,635)	(64,702)		(1,033,337)
Equipment and Furnishings	(638,342)	(77,767)		(716,109)
Total Accumulated Depreciation	(1,625,323)	(144,154)		(1,769,477)
Total Capital Assets, Being Depreciated, Net	1,833,414	25,764		1,859,178
Capital Assets, Net	\$ 1,909,702	\$ 25,764	\$ 0	\$ 1,935,466

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Metcalf County Health Services, Inc.	\$	<u>144,154</u>
Total Depreciation Expense - Component Unit	\$	<u>144,154</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Note Receivable

On November 24, 2004, Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on behalf of Metcalfe County Health Services, Inc. (Nursing Home). The agreement is that Metcalfe County Health Services, Inc. will make principal and interest payments to the Fiscal Court until paid in full. The lease agreement original issue was \$1,000,000. The principal balance outstanding as of June 30, 2008 is \$885,000.

Note 5. Short-term Debt

A. Mac Trucks

On June 26, 2007, Metcalfe County Fiscal Court entered into a lease agreement in the amount of \$394,100 with Kentucky Association of Counties Leasing Trust for a truck purchase project. The County purchased heavy trucks to use for one year; then the trucks will be sold at an auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly interest payments at a variable interest rate and one principal payment due July 20, 2008. As of June 30, 2008, the principal balance was \$394,100.

B. Road Paving Lease

On September 14, 2007, Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for a \$550,000 Road Paving Lease. The County's intention is to invest the money into interest-bearing accounts to generate income and also to have additional funds in case of an emergency. The agreement requires monthly interest payments at a variable interest rate and one principal payment due by June 20, 2008. As of June 30, 2008, the principal balance was paid in full.

C. Changes In Short-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 394,100	\$ 550,000	\$ 550,000	\$ 394,100	\$ 394,100
Governmental Activities					
Short-term Liabilities	\$ 394,100	\$ 550,000	\$ 550,000	\$ 394,100	\$ 394,100

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt

A. First Mortgage Revenue Bond, Series 2001 - Metcalfe County Public Properties Corporation

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court), created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds (Bonds), Series 2001, on October 1, 2001, for the purposes of acquisition, construction, installation, and equipping of the Metcalfe County Courthouse Facility. On October 9, 2001, \$4,850,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$96,950, net bond proceeds were \$4,753,050. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. As of June 30, 2008, principal balance outstanding was \$3,970,000. Debt service requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 195,000	\$ 175,108
2010	205,000	167,697
2011	210,000	159,703
2012	220,000	151,302
2013	230,000	142,503
2014-2018	1,290,000	558,960
2019-2023	1,620,000	235,470
Totals	<u>\$ 3,970,000</u>	<u>\$ 1,590,743</u>

B. First Mortgage Revenue Bonds, Series 2001 B - Metcalfe County Public Properties Corporation

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court) created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds, Series 2001 B, on August 1, 2003 for the purposes of financing additional costs of constructing and equipping a new courthouse facility, capitalizing interest, and paying the costs of issuance on the Series B Bonds. On August 1, 2003, \$400,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$7,680, net bond proceeds were \$392,320. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. As of June 30, 2008, principal balance outstanding was \$320,000. Debt service requirements are:

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2001 B - Metcalfe County Public Properties Corporation (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 15,000	\$ 13,530
2010	15,000	13,050
2011	15,000	12,570
2012	20,000	12,090
2013	20,000	11,450
2014-2018	105,000	44,850
2019-2023	130,000	18,400
Totals	<u>\$ 320,000</u>	<u>\$ 125,940</u>

C. Enrichment Center

On March 1, 2002, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the construction of the Metcalfe County Enrichment Center. The principal amount of the lease was \$250,000. The agreement requires monthly principal and interest payments at various interest rates for a period of twenty years. As of June 30, 2008, principal balance outstanding was \$175,026. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 9,137	\$ 6,327
2010	9,596	5,988
2011	10,079	5,627
2012	10,586	5,259
2013	11,118	4,862
2014-2018	64,561	17,678
2019-2022	59,949	4,734
Totals	<u>\$ 175,026</u>	<u>\$ 50,475</u>

D. Enrichment Center - Land

On February 13, 2004, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the acquisition of land and additional building for the Metcalfe County Enrichment Center Project. The principal amount of the lease was \$162,000. The agreement requires annual principal and monthly interest payments at a rate of 3.88% for a period of fifteen years. As of June 30, 2008, principal balance outstanding was \$138,754. Payment requirements are:

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

D. Enrichment Center - Land

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 6,393	\$ 6,228
2010	6,645	5,938
2011	6,906	5,625
2012	7,177	5,310
2013	7,459	4,955
2014-2018	41,931	19,278
2019-2023	50,844	8,620
2024	11,399	61
Totals	<u>\$ 138,754</u>	<u>\$ 56,015</u>

E. Nursing Home

On November 24, 2004, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the renovation of the Metcalfe County Nursing Home on behalf of the Metcalfe County Health Services, Inc. DBA Metcalfe Health Care Center. The principal amount of the lease was \$1,000,000. The agreement requires annual principal and monthly interest payments at a variable interest rate for a period of twenty years. As of June 30, 2008, principal balance outstanding was \$885,000. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 40,000	\$ 32,724
2010	40,000	31,201
2011	45,000	29,481
2012	45,000	27,801
2013	45,000	26,058
2014-2018	250,000	102,506
2019-2023	290,000	50,118
2024-2025	130,000	3,259
Totals	<u>\$ 885,000</u>	<u>\$ 303,148</u>

F. Road Equipment

On September 15, 2005, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of road equipment. The principal amount of the lease was \$49,500. The agreement requires annual principal and monthly interest payments at a variable interest rate for a period of fifty-nine months. As of June 30, 2008, principal balance outstanding was \$29,500. Payment requirements are:

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

F. Road Equipment

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 10,000	\$ 977
2010	10,000	602
2011	9,500	48
Totals	<u>\$ 29,500</u>	<u>\$ 1,627</u>

G. Tractor/Mower

On January 27, 2006, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a John Deer Cab tractor and MO trim mower. The principal amount of the lease was \$71,175. The agreement requires annual principal and monthly interest payments at a variable interest rate for a period of fifty-three months. As of June 30, 2008 principal balance outstanding was \$41,175. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 15,000	\$ 1,249
2010	15,000	686
2011	11,175	54
Totals	<u>\$ 41,175</u>	<u>\$ 1,989</u>

H. Computer Equipment

On April 26, 2006, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of computer equipment. The principal amount of the lease was \$15,000. The agreement requires annual principal and monthly interest payments at a variable interest rate for a period of fifty-six months. As of June 30, 2008 principal balance outstanding was \$9,000. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 3,000	\$ 499
2010	3,000	385
2011	3,000	186
Totals	<u>\$ 9,000</u>	<u>\$ 1,070</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

I. Toll Plaza Property

On December 9, 2005, the Metcalfe County Fiscal Court entered into a purchase agreement with the Commonwealth of Kentucky for the purchase of the former toll plaza property. The principal amount of the purchase agreement was \$45,000. The agreement requires annual principal payments for a period of five years. As of June 30, 2008 principal balance outstanding was \$27,000. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities
	Principal
2009	\$ 18,000
2010	9,000
Totals	<u>\$ 27,000</u>

J. Chevy Impala

On June 19, 2007, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a Chevy Impala for the jailer. The principal amount of the lease was \$15,995. The agreement requires annual principal and monthly interest payments at a variable interest rate for a period of forty-three months. As of June 30, 2008 principal balance outstanding was \$11,995. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 4,000	\$ 641
2010	4,000	472
2011	3,995	218
Totals	<u>\$ 11,995</u>	<u>\$ 1,331</u>

K. Tiger Mower

On October 1, 2007, the Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a John Deere Tiger Mower. The principal amount of the lease was \$28,425. The agreement requires monthly principal and interest payment at a variable interest rate for a period of three years. As of June 30, 2008 principal balance outstanding was \$22,464. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 9,315	\$ 974
2010	9,781	574
2011	3,368	99
Totals	<u>\$ 22,464</u>	<u>\$ 1,647</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

L. Sheriff's Office Building

On January 8, 2008, the Metcalfe County Fiscal Court entered into a purchase agreement with Verlon, Wynema, Roger, and Anita Albright for the purchase of a commercial building. The County's intent was to relocate the Sheriff's office to this new location. The principal amount of the agreement was \$55,606. The agreement requires annual principal payments for the period of three years. As of June 30, 2008 principal balance outstanding was \$37,070. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities
	Principal
2009	\$ 18,535
2010	18,535
Totals	<u>\$ 37,070</u>

M. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 4,495,000	\$ 0	\$ 205,000	\$ 4,290,000	\$ 210,000
Financing Obligations	<u>1,423,190</u>	<u>84,031</u>	<u>130,237</u>	<u>1,376,984</u>	<u>133,380</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 5,918,190</u>	<u>\$ 84,031</u>	<u>\$ 335,237</u>	<u>\$ 5,666,984</u>	<u>\$ 343,380</u>

Note 7. Operating Leases

The Metcalfe County Fiscal Court entered into various operating lease agreements for copiers and a postage machine to be used by various departments. The total expense related to these operating leases was \$5,106 for the fiscal year ended June 30, 2008. The future minimum lease payments for these operating leases are as follows:

Fiscal Year Ended June 30	Amount
2009	\$ 7,746
2010	7,376
2011	7,006
2012	<u>2,640</u>
Total Minimum Lease Payments	<u>\$ 24,768</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 8. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$145,815 in interest on financing obligations and \$196,053 in interest on bonds.

Note 9. Employee Retirement System

The county and employees of the Metcalfe County Health Services, Inc. have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The employer contribution rate for nonhazardous employees was 16.17 percent. The county's contributions for fiscal year 2006 was \$89,004, fiscal year 2007 was \$116,902, and fiscal year 2008 was \$140,509. The Metcalfe County Health Services, Inc. contribution for fiscal year 2008 was \$242,086.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 10. Insurance

For the fiscal year ended June 30, 2008, Metcalfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 11. Subsequent Events

A. On July 1, 2008, Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for a truck purchase project. The county purchased four heavy trucks to use for eighteen months; then the trucks will be sold at an auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly interest payments at a variable interest rate beginning August 20, 2008. The principal amount of the lease was \$411,940 with one principal payment due January 20, 2010.

B. On July 23, 2008, Metcalfe County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purpose of refurbishing an ambulance. The principal of the lease was \$23,215. The agreement requires monthly principal and interest payments at a variable interest rate for a period of three years beginning August 20, 2008.

Note 12. Notes Payable For Component Unit - Metcalfe County Health Services, Inc.

On November 14, 2004, Metcalfe County entered into a leasing agreement with Kentucky Association of Counties Leasing Trust (KACO) on behalf of Metcalfe Health Care Center. The amount of the lease is \$1 million and matures on July 20, 2024, with a variable interest rate. As of June 30, 2008, the balance was \$885,000. Payment requirements are:

Fiscal Year Ended June 30,	Metcalfe County Health Services, Inc.	
	Principal	Interest
2009	\$ 40,000	\$ 36,057
2010	40,000	34,357
2011	45,000	32,440
2012	45,000	30,570
2013	45,000	28,637
Remaining	670,000	169,438
Totals	<u>\$ 885,000</u>	<u>\$ 331,499</u>

Note 13. Funded Depreciation Account For Component Unit - Metcalfe County Health Services, Inc.

The Board has set aside certain funds for the purpose of property and equipment renewals and replacements. Upon Board approval, transfers are made as deemed appropriate. At June 30, 2008, the funded depreciation accounts consisted of certificates of deposits in the amount of \$681,089, which mature within the next year, and a money market account in the amount of \$129,625.

Note 14. Temporarily Restricted Assets For Component Unit - Metcalfe County Health Services, Inc.

Grant money received for the Adult Day Care Program is restricted to expenses for operating the program. The grantor reimburses the Health Care Center on a monthly basis according to reports filed by the Day Care director.

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METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

GENERAL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,025,400	\$ 1,151,035	\$ 1,161,682	\$ 10,647
In Lieu Tax Payments	90,000	137,933	137,933	
Excess Fees	3,500	71,362	88,995	17,633
Licenses and Permits	2,900	3,150	897	(2,253)
Intergovernmental	148,560	172,247	170,194	(2,053)
Miscellaneous	103,600	140,295	133,423	(6,872)
Interest	25,000	27,592	29,403	1,811
Total Revenues	1,398,960	1,703,614	1,722,527	18,913
EXPENDITURES				
General Government	723,863	831,798	677,389	154,409
Protection to Persons and Property	158,550	158,655	149,889	8,766
General Health and Sanitation	99,351	104,161	104,061	100
Social Services	4,600	4,815	4,715	100
Debt Service	120,000	125,000	121,668	3,332
Capital Projects	9,000	18,535	18,535	
Administration	734,052	1,061,422	395,957	665,465
Total Expenditures	1,849,416	2,304,386	1,472,214	832,172
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(450,456)	(600,772)	250,313	851,085
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	15,000	15,000		(15,000)
Transfers from Other Funds			71,033	71,033
Transfers to Other Funds	(164,544)	(164,544)	(53,442)	111,102
Total Other Financing Sources (Uses)	(149,544)	(149,544)	17,591	167,135
Net Changes in Fund Balance	(600,000)	(750,316)	267,904	1,018,220
Fund Balance - Beginning	600,000	750,316	750,316	
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,018,220	\$ 1,018,220

Reconciliation of General Fund

Total Expenditures - Budgetary Basis	\$ 1,472,214
Plus: Expenditures for Purchase of Building	55,606
Total Expenditures - Modified Cash Basis	\$ 1,527,820
Other Financing Sources (Uses) - Budgetary Basis	\$ 17,591
Plus: Proceeds From Financing Obligation	55,606
Total Other Financing Sources (Uses) - Modified Cash Basis	\$ 73,197

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 977,645	\$ 1,278,918	\$ 1,221,322	\$ (57,596)
Miscellaneous	3,850	3,967	362,233	358,266
Interest	28,000	45,799	39,484	(6,315)
Total Revenues	1,009,495	1,328,684	1,623,039	294,355
EXPENDITURES				
General Health & Sanitation	250	1,816	1,267	549
Roads	903,671	1,278,685	1,029,002	249,683
Debt Service	624,500	699,388	645,849	53,539
Administration	381,074	530,966	95,387	435,579
Total Expenditures	1,909,495	2,510,855	1,771,505	739,350
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(900,000)	(1,182,171)	(148,466)	1,033,705
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	500,000	578,425	578,425	
Total Other Financing Sources (Uses)	500,000	578,425	578,425	
Net Changes in Fund Balance	(400,000)	(603,746)	429,959	1,033,705
Fund Balance - Beginning	400,000	603,746	531,265	(72,481)
Fund Balance - Ending	\$ 0	\$ 0	\$ 961,224	\$ 961,224

Reconciliation of Road Fund

Total Expenditures - Budgetary Basis	\$ 1,771,505
Less: Road Anticipation Lease	<u>(550,000)</u>
Total Expenditures - Modified Cash Basis	<u>\$ 1,221,505</u>
Other Financing Sources (Uses) - Budgetary Basis	\$ 578,425
Less: Road Anticipation Lease	<u>(550,000)</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 28,425</u>

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 66,435	\$ 70,639	\$ 70,063	\$ (576)
Charges for Services	100	100		(100)
Miscellaneous	100	100		(100)
Interest		772	911	139
Total Revenues	66,635	71,611	70,974	(637)
EXPENDITURES				
Protection to Persons and Property	171,946	177,943	110,062	67,881
Administration	30,414	139,326	7,019	132,307
Total Expenditures	202,360	317,269	117,081	200,188
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(135,725)	(245,658)	(46,107)	199,551
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	135,725	135,725		(135,725)
Total Other Financing Sources (Uses)	135,725	135,725		(135,725)
Net Changes in Fund Balance		(109,933)	(46,107)	63,826
Fund Balance - Beginning		109,933	109,933	
Fund Balance - Ending	\$ 0	\$ 0	\$ 63,826	\$ 63,826

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	STATE GRANTS FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 1,125,000	\$ 1,130,000	\$ 432,861	\$ (697,139)
Miscellaneous		3,416	3,416	
Interest		4,679	5,648	969
Total Revenues	1,125,000	1,138,095	441,925	(696,170)
EXPENDITURES				
General Government	10,000	10,000		10,000
General Health & Sanitation	300,000	315,950	175,446	140,504
Recreation and Culture	267,000	267,000		267,000
Capital Projects	360,000	360,000	29,478	330,522
Administration	188,000	544,234		544,234
Total Expenditures	1,125,000	1,497,184	204,924	1,292,260
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)		(359,089)	237,001	596,090
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(7,220)	(7,220)
Total Other Financing Sources (Uses)			(7,220)	(7,220)
Net Changes in Fund Balances		(359,089)	229,781	588,870
Fund Balances - Beginning		359,089	359,089	
Fund Balances - Ending	\$ 0	\$ 0	\$ 588,870	\$ 588,870

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

AMBULANCE FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 168,500	\$ 196,126	\$ 198,499	\$ 2,373
License and Permits	1,000	1,000		(1,000)
Intergovernmental	16,100	16,652	1,653	(14,999)
Interest	9,000	12,391	15,961	3,570
Total Revenues	<u>194,600</u>	<u>226,169</u>	<u>216,113</u>	<u>(10,056)</u>
EXPENDITURES				
General Government	5,000	25,700	20,700	5,000
Protection to Persons and Property	200,000	200,000	183,378	16,622
Administration	289,600	509,690		509,690
Total Expenditures	<u>494,600</u>	<u>735,390</u>	<u>204,078</u>	<u>531,312</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(300,000)</u>	<u>(509,221)</u>	<u>12,035</u>	<u>521,256</u>
Net Changes in Fund Balance	(300,000)	(509,221)	12,035	521,256
Fund Balances - Beginning	<u>300,000</u>	<u>509,221</u>	<u>509,221</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 521,256</u>	<u>\$ 521,256</u>

METCALFE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	Local Government Economic Assistance Fund	Federal Grants Fund	Disaster and Emergency Services Fund	Courthouse Renovation Fund	Spay and Neuter Fund
ASSETS					
Cash and Cash Equivalents	\$ 21,005	\$ 46,483	\$ 13,779	\$ 209,032	\$ 1,025
Total Assets	<u>21,005</u>	<u>46,483</u>	<u>13,779</u>	<u>209,032</u>	<u>1,025</u>
FUND BALANCES					
Reserved For:					
Encumbrances				18,664	
Grants					25
Unreserved:					
Special Revenue Funds	<u>21,005</u>	<u>46,483</u>	<u>13,779</u>	<u>190,368</u>	<u>1,000</u>
Total Fund Balances	<u>\$ 21,005</u>	<u>\$ 46,483</u>	<u>\$ 13,779</u>	<u>\$ 209,032</u>	<u>\$ 1,025</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2008
(Continued)

Homeland Security Fund	Metcalf County Public Properties Construction Fund	Total Non-Major Governmental Funds
<u>\$ 1,003</u>	<u>\$</u>	<u>\$ 292,327</u>
<u>1,003</u>	<u></u>	<u>292,327</u>
		18,664
		25
<u>1,003</u>	<u></u>	<u>273,638</u>
<u>\$ 1,003</u>	<u>\$ 0</u>	<u>\$ 292,327</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	Local Government Economic Assistance Fund	Federal Grants Fund	Disaster and Emergency Services Fund	Courthouse Renovation Fund
REVENUES				
Intergovernmental	\$ 23,565	\$ 203,959	\$ 12,868	\$
Miscellaneous			6,860	
Interest	85	191	69	2,186
Total Revenues	<u>23,650</u>	<u>204,150</u>	<u>19,797</u>	<u>2,186</u>
EXPENDITURES				
General Government	16,260			
Protection to Persons and Property		5,000	36,908	
General Health and Sanitation				
Capital Projects		188,448		35,418
Administration	2,916		4,285	
Total Expenditures	<u>19,176</u>	<u>193,448</u>	<u>41,193</u>	<u>35,418</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>4,474</u>	<u>10,702</u>	<u>(21,396)</u>	<u>(33,232)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		5,000	14,507	2,220
Transfers To Other Funds		(34,198)		
Total Other Financing Sources (Uses)		<u>(29,198)</u>	<u>14,507</u>	<u>2,220</u>
Net Change in Fund Balances	4,474	(18,496)	(6,889)	(31,012)
Fund Balances - Beginning	16,531	64,979	20,668	240,044
Fund Balances - Ending	<u>\$ 21,005</u>	<u>\$ 46,483</u>	<u>\$ 13,779</u>	<u>\$ 209,032</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008
(Continued)

Spay and Neuter Fund	Homeland Security Fund	Metcalf County Public Properties Construction Fund	Total Non-Major Governmental Funds
\$ 1,000	\$ 36,835	\$	\$ 278,227
			6,860
	3	102	2,636
<u>1,000</u>	<u>36,838</u>	<u>102</u>	<u>287,723</u>
			16,260
	36,935		78,843
975			975
			223,866
			7,201
<u>975</u>	<u>36,935</u>		<u>327,145</u>
<u>25</u>	<u>(97)</u>	<u>102</u>	<u>(39,422)</u>
1,000	37,935		60,662
	(36,835)	(8,858)	(79,891)
<u>1,000</u>	<u>1,100</u>	<u>(8,858)</u>	<u>(19,229)</u>
1,025	1,003	(8,756)	(58,651)
		8,756	350,978
<u>\$ 1,025</u>	<u>\$ 1,003</u>	<u>\$ 0</u>	<u>\$ 292,327</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated April 9, 2009, wherein we issued a qualified opinion on the discretely presented component unit because the financial statements of the Metcalfe County Health Services, Inc. have been prepared under accounting principles generally accepted in the United States of America. Metcalfe County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We did not audit the Metcalfe County Health Services, Inc. Other auditors whose report has been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The audit of the Metcalfe County Health Services, Inc. was not conducted in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metcalfe County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metcalfe County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metcalfe's County internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiencies described in the accompanying comments and recommendations 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-08, and 2008-12 to be significant deficiencies in internal control over financial reporting:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that of the significant deficiencies described above 2008-01, 2008-02, 2008-03, and 2008-04 are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Metcalfe County's financial statements as of and for the year ended June 30, 2008, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the comments and recommendations. These noncompliances and other matters are reported in comments 2008-05, 2008-06, 2008-07, 2008-09, 2008-10, and 2008-11.

The Metcalfe County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 9, 2009

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

FINANCIAL STATEMENT FINDINGS

2008-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process

The Fiscal Court has a lack of segregation of duties over receipts and the reconciliation process. The County Treasurer receives, records, and deposits all funds. She also prepares the bank reconciliations. No documented review or compensating controls exist over these areas. In addition, receipts are logged in daily but that log is rarely compared to list on deposit tickets and checks received in the mail are not stamped immediately with a restrictive endorsement. Adequate segregation of duties would prevent the same person from having a significant role in the receiving, recording, and reporting of receipts, and the reconciliation of those receipts. We recommend that the Fiscal Court strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing source documents. In addition, we recommend that the receipts log be compared to the deposit ticket and that checks received in the mail be stamped immediately with a restrictive endorsement.

County Judge/Executive Greg Wilson's Response: Metcalfe County Fiscal Court is understanding of the more rigorous SAS-112 auditing regulations imposed this year, however the office staff has not increased. The County will strive to implement procedures and corrective measures to improve internal control as limited staff will allow.

2008-02 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund

Since the County is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC), this entity is reported as a blended component unit of the County. During our review of cash we noted the County did not maintain proper records for the PPC - Debt Service Fund. Bank statements were maintained however; the county did not prepare a receipts and disbursement ledger, bank reconciliations, and financial statements. We recommend that the County continue to receive the bank statements for the PPC, maintain a receipts and disbursement ledger, reconcile the account monthly, and prepare fiscal year ending financial statements.

County Judge/Executive Greg Wilson's Response: The County will continue to maintain records for the Metcalfe County Public Properties Corporation. During the past two years the County has worked diligently with the Administrative Office of the Court (AOC) to close out the construction accounts for the Metcalfe County Justice Center, which was completed in 2003. AOC has control of and transfers the receipts and disbursements for the funds of this blended component unit at their will, as the County only receives bank statements of the AOC activities.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-02 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund

(Continued)

County Judge/Executive Greg Wilson's Response: (Continued)

During FY 08 two construction accounts were successfully closed and the funds transferred by AOC, however there were no documentation shared by the bonding agent that those funds were applied to either the principal and/or interest for our Justice Center, therefore the County held up on preparing a financial statement until these significant questions regarding the closure disbursements could be answered as not to prepare an incorrect or false statement. This auditor chose to prepare the financial statement herself rather than communicate with the County, and subsequently the County had to ask for a copy of that statement, as it was not offered upon completion for County's documentation. Audit Manager was consulted after the exit conference, and subsequently additional documentation regarding the closure disbursements was provided by the auditor.

It should be noted that the FY 08 ending balance of the Metcalfe County Public Properties Corporation financial statement was \$33.

Auditor Reply: This comment was reported in the prior year audit report. Auditor tried to obtain a financial statement for the current year and was informed no financial statements were prepared.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2008-03 The Fiscal Court Should Implement Stronger Internal Controls Over Occupational Tax Billing, Collection, And Reporting

During our review of occupational tax billings, collections, reporting, and occupational tax program numerous deficiencies were noted. Auditors noted that the Occupational Tax Administrator is also the Finance Officer and that she prepares the bills, records the tax receipts, and has the ability to add and remove taxpayers from the occupational tax program. Auditors also reviewed total collections for fiscal year 2008 per the occupational tax program and compared it to the County Treasurer's receipts ledger and Fourth Quarterly Financial Report and discovered there was a difference of \$3,859 more reported on the occupational tax program managed by the occupational tax administrator. Auditors also noted that there is no system in place for the collection of delinquent occupational taxes and that there is no system in place to report occupational tax billings, collections, and delinquents to the fiscal court other than the receipts portion of the County Treasurers monthly and quarterly financial reports.

We recommend that the Fiscal Court develop and implement written policies concerning regular occupational tax and delinquent tax billings, collections, recording, and reporting and consider segregating these duties. We recommend that the Fiscal Court require the occupational tax administrator to obtain Fiscal court approval before taxpayers are added or removed from the occupational tax program. We recommend that procedures be developed and implemented to reconcile the County Treasurer's receipts ledger with the Occupational tax administrators tax program and any discrepancies be investigated.

County Judge/Executive Greg Wilson's Response: Fiscal Court will review Occupational License Tax Ordinance No. 04-0525 and discuss the development and implementation of written policies concerning regular occupational tax and delinquent tax billings, collections, recording, reporting, segregation of these duties, obtaining Fiscal Court approval before taxpayers are added or removed from the occupational tax program. The County will strive to develop and implement procedures to reconcile the receipts ledger with the occupational tax program.

It should be noted that no money discrepancies were found only the timing of data entry discrepancies due to limited staffing.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-04 The Fiscal Court Should Improve Purchase And Procurement Procedures

During our review of expenditures we noted numerous deficiencies in purchase and procurement procedures. All vendor invoices reviewed were not cancelled only the attached purchase order was cancelled. Several vendor invoices were faxes and one vendor invoice was a copy. One vendor invoice was missing supporting documentation and one vendor invoice's supporting documentation was a copy. Several purchase orders were issued after the work was performed or service was provided.

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original vendor invoices should be maintained including any supporting documentation, agreed to the corresponding purchase order, and cancelled upon payment. Copies and faxes are acceptable only in a few instances. All purchase orders should be approved and issued before the work or service is performed.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, the Fiscal Court is exposing public resources to potential misstatements and/or fraud.

We recommend the Fiscal Court maintain all original vendor invoices including any supporting documentation, approve and issue purchase orders before work or service is performed, and cancel all vendor invoices when paid.

County Judge/Executive Greg Wilson's Response: At the exit conference, auditors did not provide documents to support their opinions of deficiencies as mentioned in paragraph one and two, therefore it is hard to submit a response. A telephone request was made to the Audit Manager to provide such documentation.

The County has purchased and is utilizing a paid stamp with blue ink to cancel invoices as instructed by the auditor-in-training. The County does appreciate and commend the auditor-in-training for communicating the County's need for this stamp while the audit was being conducted in the fall of 2008 and not waiting until the exit conference in April 2009.

Auditor Reply: Audit staff did have documents on hand at the exit conference to support deficiencies noted throughout the audit and would have shared those documents with the County Judge/Executive upon request. Having this type of audit documentation is not only essential to any audit conducted by the Auditor of Public Accounts, but is also a required auditing standard. The field auditor, upon request by the audit manager, provided the documentation requested by the County Judge/Executive to support the deficiencies.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-05 The Fiscal Court Should Advertise For Bid On All Construction Projects Exceeding \$20,000 To Ensure Compliance With All Federal And State Laws And Regulations

During our review of the Federal Housing and Urban Development (HUD) Economic Development Initiative (EDI) grant for the renovation of the Metcalfe County Enrichment Center, it was noted that the Fiscal Court failed to advertise for bids on the project in accordance with federal and state laws and regulations. The grant agreement required that the Fiscal Court obtain and retain documentation on its efforts to ensure to the greatest extent feasible that the project be given to low and very low income persons and businesses that provide economic opportunities for those persons, and to encourage the use of minority and women's business enterprises. No evidence was found in the review of grant files to determine that this requirement was met; therefore, the Fiscal Court failed to ensure compliance with this requirement.

Auditors reviewed the grant file and noted that the following:

- Fiscal Court hired numerous subcontractors for ten (10) different aspects of the renovation based upon the recommendation of one contractor from which estimates were obtained and all fell below the \$20,000 threshold required by law for advertisement for bids.
- Numerous estimates were signed by individuals with the same last name and only included simple descriptions of work to be performed.
- Numerous vendor invoices were identical except for the names of the vendors, descriptions, and amounts. Some of the vendor invoices for different companies were in consecutive invoice number order.
- All vendor invoices did not contain detailed information only a simple description including labor.
- No evidence of a review of federal allowable costs and prevailing wages was found.
- Numerous cancelled checks were either signed by the same individuals or deposited to the same bank account. Numerous checks were cashed at the county's bank.

Based upon this information auditors have determined that at least three and possibly up to five of the vendors hired were either owned by the same individuals or run by related individuals. Auditors did not view the property that was renovated due to the lack of information on what the property originally looked like and the lack of information of detailed descriptions of the materials provided and work performed.

Total grant award was \$198,400 of which \$188,448 was expended in fiscal year 2008. Auditors are questioning the total amount expended on this grant for fiscal year 2008. We recommend that the county advertise for bids on any grant-funded contracts that exceed \$20,000 concerning construction projects, which includes renovation projects. We also recommend that the county either contract with a grant administrator to oversee the federal and state regulations over that grant or oversee the project themselves and retain supporting documentation. We also recommend that the Fiscal Court obtain contracts with all vendors detailing the work to be performed, including a detailed cost description, and that all vendor invoices be detailed in the description of the materials provided and services rendered in order to determine allowable costs. We are referring this matter to the Office of Inspector General and the Federal Department of Housing and Urban Development for review.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

- 2008-05 The Fiscal Court Should Advertise For Bid On All Construction Projects Exceeding \$20,000 To Ensure Compliance With All Federal And State Laws And Regulations
 (Continued)

County Judge/Executive Greg Wilson's Response: The Barren River Area Development District (BRADD) office administered the HUD grant application process for the County to obtain funding for the renovation of the Metcalfe County Enrichment Center. After the award, estimates were obtained and taken to the BRADD office for review. The BRADD office recommended since this was a renovation project the County could obtain project contractors for less than the required threshold therefore the County did not have to bid the project. The County attorney also agreed with the BRADD office. The County now understands that a renovation project is viewed the same as construction, therefore the County will in the future advertise such projects for bid, obtain contracts with all vendors, and consider a contract with a grant administrator.

- 2008-06 The County Judge Executive Should Publicly Open Competitive Sealed Bids In Accordance With County's Administrative Code

During our review of internal control and test of bidding procedures we noted that competitive sealed bids are not being opened publicly as required by the County's administrative code. The administrative code states "The Judge/Executive advertises for bids in the newspaper of jurisdiction in the County at least once, not less than seven days, nor more than twenty-one days before bid opening. The advertisement shall include the time and place the bids will be delivered and opened, and will also include the place where the specifications may be obtained. The Judge/Executive shall open all bids publicly at the time and place stated in the advertisement. Opening of bids need not occur at a Fiscal Court meeting." We recommend that the County Judge Executive open competitive sealed bids publicly, record them in the fiscal court minutes, and provide for open public inspection in compliance the County's administrative code.

County Judge/Executive Greg Wilson's Response: The County's competitive sealed bids are opened publicly by the County Judge/Executive as required by the County's administrative code. In fact, had this auditor inquired, she would have been informed that the County Attorney is in attendance at all bid openings to substantiate a proper opening according to the County's administrative code. All bids are recorded in the fiscal court minutes for open inspection in the records room of the County Clerk's office during normal office hours.

Auditor Reply: Audit report comment 2008-11 documents that the County Judge Executive opened competitive sealed bids relating to a state grant prior to a fiscal court meeting. In addition, during the audit engagement auditors were present during a special called fiscal court meeting where the fiscal court awarded a federal grant contract in which those competitive sealed bids were also opened prior to the fiscal court meeting. The County is, however, opening competitive sealed bids for their annual road materials and services in compliance with the County administrative code.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2008-07 The Fiscal Court Should Either Deal Directly With The State Price Contract Vendor Or Advertise For Bid On Purchases That Exceeded \$20,000 In Accordance With KRS 424.260

During fiscal year 2008, the Fiscal Court purchased a 2008 Ford Crown Victoria for \$23,215 out of the General Fund. This vehicle was purchased from an Adair County vendor, without bidding the purchase, at what the Adair County vendor indicated was the same price as the state price contract. At that time, a dealership located in Lawrenceburg, Kentucky held the state price contract.

In order to use a vendor for any purchase over \$20,000, without bidding the purchase, a county must have done the following:

If the Fiscal Court has adopted the Model Procurement Code (KRS 45A.345-460) they have the option of:

1. Purchasing the vehicle from the state price contract.
2. Advertising for bids to negotiate a lower price.
3. Negotiating directly with a vendor as long as the final price does not exceed the state price contract.

If the Fiscal Court has not adopted the Model Procurement Code, only the first two options apply.

Since the Fiscal Court has not adopted the Model Procurement Code, they should have bought the vehicle directly from the vendor who held the state price contract, or advertised for bids on the vehicle.

We recommend the Fiscal Court deal directly with state price contract vendors or advertise for bids in accordance with KRS 424.260, if the Fiscal Court chooses not to adopt the Model Procurement Code.

County Judge/Executive Greg Wilson's Response: The County admits that the Court's judgment was clouded by wanting to purchase locally with state contract pricing. The County will share this information with all department heads.

2008-08 \$124,868 Of Expenditures Were Paid Before Fiscal Court Approved Payment And \$308,014 Of Expenditures Were Not Approved By Fiscal Court

During our tests of expenditures, we noted the following expenditures were paid before Fiscal Court approval:

- Eight Federal Grants Fund expenditures totaling \$98,062, to six construction vendors for the renovation of the Metcalfe County Enrichment Center.
- One Road Fund expenditure of \$293, to a copier lease vendor.
- One Ambulance Fund expenditure of \$26,513, to the local ambulance service for support.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-08 \$124,868 Of Expenditures Were Paid Before Fiscal Court Approved Payment And
 \$308,014 Of Expenditures Were Not Approved By Fiscal Court
 (Continued)

In addition, we also noted no evidence of Fiscal Court approval for one Road Fund expenditure of \$308,014, to a road-paving vendor.

We recommend the Fiscal Court approve all expenditures before payment is made and evidence of that approval should be documented in the Fiscal Court order book.

County Judge/Executive Greg Wilson's Response: The Fiscal Court minutes of the January 22nd, 2008, document a re-scheduling of the first meeting in February due to a conflict with the annual Department for Local Government budget training. The meeting was moved forward to February 5th, 2008 instead of February 12th. This rescheduling created a significant length of time before the next meeting of February 26th. The February 5, 2008 meeting minutes, specifically Page 2, paragraph 1 and recorded in Fiscal Court Order Book No. 13, page 571-574 reveal that discussion was held and the magistrates voted unanimously to allow payment of any non pre-approved recurring claims that needed attention prior to the February 26th regular scheduled meeting with full disclosure at that meeting. These minutes document evidence of court's unanimous approval of this Ambulance Fund expenditure. Supporting documentation is attached.

The road expenditure to the copier lease was paid prior to court approval. Due to family illness, the Finance Officer had been absent for several days and upon return hurriedly prepared what she and the County Treasurer believed to be a pre-approved recurring account a is the General Fund copier lease. This copier lease expenditure was omitted from the pre-approved recurring account listing for FY 08 and will be included in the new budget year.

Fiscal Court approval for the Road Fund expenditure to the road paving vendor is evidenced in Fiscal Court Order Book No. 14, page 530-533, specifically page 2, paragraph 2. Further, the resolution granting approval of the Transportation Cabinet Memorandum of Agreement for a reimbursable grant in the amount of \$300,000 can be found in Order Book No. 20, page 77. Supporting documentation is attached.

Auditor Reply: Subsequent to the exit conference the county provided additional documentation to support approval of the Ambulance Fund expenditure of \$26,513.

As of June 30, 2008, the fiscal court had not approved the Road Fund expenditure of \$308,014 dated January 8, 2008. During expenditure testing in November 2008 auditors informed the Finance Officer and the County Treasurer who subsequently had the payment approved by the Fiscal Court on December 23, 2008.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-09 The Fiscal Court Should Approve All Interfund Transfers In Accordance With KRS 68.290

During our review of interfund transfers, we noted numerous instances where the County Treasurer transferred funds prior to receiving Fiscal Court approval.

KRS 68.290 states: "The fiscal court may transfer money from one (1) budget fund to another to provide for emergencies or increases or decreases in county employment pursuant to KRS 64.530(4). The order of the fiscal court making the transfer shall show the nature of the emergency or personnel increase or decrease and the reason for making the transfer. The fiscal court shall not have any power to transfer money from a sinking fund or special fund raised for a specific purpose until the obligation or purpose for which the fund was raised has been satisfied."

We recommend that the County Treasurer seek and obtain Fiscal Court approval for all interfund transfers before they are made and provide documentation within the minutes to be in compliance with KRS 68.290.

County Judge/Executive Greg Wilson's Response: At the exit conference the auditors did not provide supporting documentation nor did she communicate any instance while performing the audit, therefore it is hard to submit a response. The County feels that the KRS quoted does not clearly state if an emergency is the only time interfund transfers can be made. The County rarely makes interfund transfers and never for the purpose of expending funds, but for proper fund management. For example, grant monies are receipted in the State Grant Fund account however the labor and equipment is supplied by Road Department Employees. These activities are encouraged by grant administrators, well documented and submitted with expenditure reports. Upon completion, approval and closure of the State grant, documented Road Fund expenditures are returned to the Road Fund by interfund transfers. All interfund transfers are presented with verbal explanation to Fiscal Court for approval as evidenced and filed with the meeting minutes recorded in the County Clerk's Office.

The County will provide additional supporting documentation from the grant file to coincide with the transfer request.

Auditor reply: All interfund transfers require a fiscal court order as required by KRS and noted on page 70 of the Department for Local Government's Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual.

2008-10 The Fiscal Court Had \$13,200 Of Questionable Costs And Activities Relating To The Boswell Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award

During our review of the Kentucky Environmental and Public Protection Cabinet's (KY EPPC) 2008 Illegal Open Remediation Dump state grant we noted questionable activities and expenditures. This grant was for the purpose of cleaning three illegal dumpsites located within the county.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-10 The Fiscal Court Had \$13,200 Of Questionable Costs And Activities Relating To The Boswell Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award

(Continued)

According to the grant agreement all dumpsite cleanups that were estimated to cost below \$50,000 were subject to a 25% match in either money or in kind. All dump cleanups that were estimated to cost \$50,000 or more were subject to competitive sealed bidding and no matching requirements. The Boswell dump was estimated to cost \$13,663, and, therefore, required a 25% match. The Fiscal Court required the property owner to provide money for this 25% match.

Auditors reviewed the Boswell dumpsite grant file and noted the following:

- Pre-Inspection report by KY EPPC dated July 10, 2007
- Grant application dated October 30, 2007
- Estimated cost of clean up \$13,663
- Grant proceeds paid to Fiscal Court (75% of estimated costs) \$10,247 (received January 18, 2008)
- Matching paid by property owner (25% of estimated costs) \$3,416 (received February 19, 2008)
- Actual vendor cost of clean up \$13,200 (paid March 18, 2008)
- Actual grant proceeds to be used (75% of actual) \$9,900 (\$347 needs to be reimbursed to state)
- Actual matching (25% of actual) \$3,300 (reimbursed \$116 to property owner March 2008)
- Post inspection report from KY EPPC stating Boswell dumpsite cleaned dated May 6, 2008

On December 23, 2008, auditors viewed the Boswell dumpsite with permission from the property owner and noted that there was debris located at the dumpsite. Auditors noted that there was what appeared to be a spring located below the dumpsite. Auditors noted that the vendor was paid in March 2008 but KY EPPC's post-inspection was not completed until May 2008. Based upon this information auditors are questioning why the vendor was paid two months before the post-inspection was completed, and why there was debris at the dumpsite after the state's inspection.

We recommend that the Fiscal Court take steps to ensure that the dumpsite is cleaned up. We also recommend that the \$347 that has not been spent on the Boswell dumpsite cleanup portion of this grant be returned to KY EPPC after final inspection of all dumpsites is completed.

We are referring this matter to the Office of Inspector General at the Kentucky Energy and Environmental (EPPC) Cabinet for review.

County Judge/Executive Greg Wilson's Response: State inspection was conducted on the Boswell dumpsite on February 27, 2008, and was deemed cleaned by representatives from the Columbia Office of the EPPC by telephone conference with Judge/Executive Wilson that same day. Complaints were later received from the landowners and Judge/Executive Wilson requested the vendor return to the site for additional cleaning. Payment was made to the vendor after the return visit as the EPPC did not communicate another inspection was appropriate. Later, EPPC did communicate an issue with obtaining photos due to the landowner's bull.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-10 The Fiscal Court Had \$13,200 Of Questionable Costs And Activities Relating To The Boswell Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award

(Continued)

County Judge/Executive Greg Wilson's Response: (Continued)

This dumpsite was one of three dumps included in the 2008 Illegal Open Dump Remediation Grant Program awarded to Metcalfe County in the amount of \$237,646. Had this auditor inquired during the audit, the County's Solid Waste Coordinator would gladly have shared evidence from the Grant Administrator with the Recycling and Local Assistance Branch of the Division of Waste Management, that unspent or leftover funding from one dumpsite can be moved around amount the other dumps listed in the year's program. Supporting documentation is attached to this response.

It should be noted that upon completion of all three dumps listed on the program for 2008, all inspection reports, photos, receipts and expenditures were reviewed and verified by the Grant Administrator on January 9, 2009, resulting in a balance of \$16,974.15 unspent funds and with Fiscal Court approval returned on Jan 27, 2009. The successful completion of this 2008 Grant resulted in subsequent approval of our 2009 application and award. Supporting documentation is attached to this response.

Auditor reply: The APA received an allegation concerning the Boswell Dumpsite Cleanup and performed procedures to follow-up on that allegation. APA recommends that EPPC review to confirm all grant requirements were met and determine if any funds should be reimbursed to the state.

2008-11 The Fiscal Court Has Questionable Activities And Subsequent Questioned Costs Of \$190,000 Relating To The Garmon/Perry Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award

During our review of the Kentucky Environmental and Public Protection Cabinet's (KY EPPC) 2008 Illegal Open Remediation Dump state grant, we noted questionable activities and expenditures. This grant was for the purpose of cleaning three illegal dumpsites located within the county.

According to the grant agreement all dumpsite cleanups that were estimated to cost below \$50,000 were subject to a 25% match in either money or in kind. All dump cleanups that were estimated to cost \$50,000 or more were subject to competitive sealed bidding and no matching requirements. The Garmon/Perry dump was estimated to cost \$203,581, and, therefore, was subject to competitive sealed bidding requirements and no matching requirements.

Auditors reviewed the grant file for the Garmon/Perry dump and noted the following:

- Pre-Inspection report by KY EPPC dated October 29, 2007
- Grant application dated October 30, 2007
- Estimated cost of clean up \$203,581
- Grant proceeds to Fiscal Court \$203,581 (total cost) (received January 18, 2008)

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2008-11 The Fiscal Court Has Questionable Activities And Subsequent Questioned Costs Of \$190,000 Relating To The Garmon/Perry Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award
 (Continued)

- Request for competitive sealed bids were advertised (February 27, 2008)
- Bids were opened by County Judge/Executive and County Treasurer without holding a public meeting (see comment 2008-06 for noncompliance with County administrative code).
- The lowest bid that was submitted was \$80,000 but the vendor was disqualified for not having the required general liability and workers compensation insurance per grant specifications.
- The next lowest bid that was submitted was \$94,000 but the vendor was disqualified for not having the required workers compensation insurance. This was a family owned vendor and was not required by law to have worker compensation insurance, however, the grant specifications required workers compensation.
- The next lowest bid that was submitted was \$150,000 but the vendor was disqualified for not having the required workers compensation insurance per grant specifications.
- The next lowest bid that was submitted was \$190,000 and the vendor had the required liability and workers compensation insurance. The County Judge/Executive and KY EPPC determined that this was best choice vendor prior to a fiscal court meeting and approval on April 22, 2008.
- Fiscal Court approved awarding vendor for cleanup on April 22, 2008. Total cost to equal \$190,000 of which the landfill costs to be paid by the Fiscal Court, with the rest being paid to the vendor. (\$13,581 needs to be reimbursed to the state).
- Vendor started cleanup on June 16, 2008 and completed on June 20, 2008
- Post inspection report by KY EPPC stating Garmon/Perry dumpsite cleaned dated June 20, 2008
- Glasgow landfill invoiced Fiscal Court dated July 2, 2008. Hauls to the Glasgow landfill started on June 16, 2008 and ended on June 23, 2008 with a total of 16 haul trips and a total of 142.34 tons of debris.
- Glasgow landfill was paid by the fiscal court a total of \$3,808 July 22, 2008 (fiscal year 2009)
- Vendor invoiced Fiscal Court dated July 2, 2008 (fiscal year 2009). This invoice was not detailed. Only had a short description of cleanup and removal of solid waste materials from illegal dumpsite and address of dumpsite and the amount of the bid less landfill costs.
- Vendor was paid a total of \$186,192 on July 2, 2008 (fiscal year 2009) (\$190,000 less \$3,808 for landfill costs paid for by Fiscal Court)

Auditors noted that, according to the Garmon/Perry dumpsite clean up cost estimate, the estimated tonnage for debris was set at 2600 tons at 26.75 per ton, for a estimated landfill cost of \$69,550, and the actual tonnage that was taken to the Glasgow landfill was 142.34 tons with a total cost of \$3,808, for a difference of \$65,742. The estimated hauling of debris to the Glasgow landfill was set at 433 trips at \$200 per trip for a estimated hauling cost of \$86,600 and actual hauling to the landfill was 16 trips at \$200 per trip for an actual hauling cost of \$3,200 for a difference of \$83,400.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2008-11 The Fiscal Court Has Questionable Activities And Subsequent Questioned Costs Of \$190,000 Relating To The Garmon/Perry Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award

 (Continued)

Auditors recalculated the original estimate of \$203,581 to account for the actual tonnage and haul trips to the Glasgow landfill and noted that the estimate should have been between \$55,000 and \$65,000. Auditors investigated this further and noted that this dumpsite had a large sinkhole located on the property, which was filled with debris. Auditors noted that pictures contained in the KY EPPC post-inspection report after the clean up showed no sinkhole, providing the possibility that this sinkhole was not cleaned but was simply filled in. This would account for the lack of tonnage of debris that was taken to the landfill. It should also be noted that there are three springs located on this property with one that feeds into the little Barren River, which ultimately feeds into the Barren River.

Auditors have determined that the costs paid for the clean up of the Garmon/Perry dumpsite have either been over estimated by approximately \$13,581, or the site has not been completely cleaned up, or both. In either case, the vendor was overpaid. From an environmental standpoint, if the Garmon/Perry dumpsite sinkhole was filled in, the negative environmental impact could be significant.

We recommend that the Fiscal Court contact the KY EPPC about possible reimbursement concerning the Garmon/Perry dumpsite. We also recommend that the \$13,581 that has not been spent on the Garmon/Perry dumpsite cleanup portion of this grant be returned to KY EPPC after final inspection of all dumpsites is completed.

We are referring this matter to the Office of Inspector General in the Kentucky Energy and Environmental Cabinet for review.

County Judge/Executive Greg Wilson's Response: The Division of Waste Management and the Kentucky Environmental and Public Protection Cabinet (EPPC) researched and prepared the estimates on labor, specific equipment and tonnage for the Garmon/Perry dumpsite as evidenced by a six page facsimile dated October 29, 2007. A Division of Waste Environmental Engineer Consultant calculated the volume, tonnage and transportation cost based on the measurements of the Garmon/Perry dumpsite and submitted this information by email to the EPPC Columbia office on October 22, 2007 at 11:51 am. With this information the Columbia EPPC then estimated the labor, equipment and disposal costs and faxed all to Judge Wilson on October 29, 2007 at 11:56 am. This information was made available to the County for ease in preparation of the 2008 grant application. The facsimile and photos of the dumpsite were, and still are, in the file at the time of this audit. Supporting documentation is attached to this response.

After award of the 2008 grant program and in preparation for the bid process, Columbia EPPC personnel met with County's staff on January 31, 2008 at 8:00 a.m. sharing great detail on preparation of the bid specifications as evidenced in four pages of hand-written notes taken during that meeting, also made available to the auditor. The dumpsites were properly advertised and bids awarded.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-11 The Fiscal Court Has Questionable Activities And Subsequent Questioned Costs Of \$190,000 Relating To The Garmon/Perry Dumpsite Cleanup Of Their 2008 Illegal Open Remediation Dump State Grant Award

(Continued)

County Judge/Executive Greg Wilson's Response: (Continued)

Following the advice of EPPC a pre-bid conference and site visit was scheduled March 10, 2008 at 9:00 a.m. A Branch Manager of the Recycling and Local Assistance Branch of the Division of Waste Management, and three of her Frankfort staff members arrived March 10, 2008 at 8:00 a.m. to review the bid specification prepared, made changes and then conducted the pre-bid site visits at two locations as witnessed by fifteen contractors in attendance. Their names and phones are available for the Inspector General's review, as well as the names of EPPC and Division of Waste Personnel. Supporting documentation is attached to this response.

This dumpsite was also one of the three dumps included in the 2008 Illegal Open Dump Remediation Grant program awarded to Metcalfe County in the amount of \$237,646. Had this auditor inquired during the audit, the County's Solid Waste Coordinator would gladly have shared evidence from the Grant Administrator with the Recycling and Local Assistance Branch of the Division of Waste Management, that unspent or leftover funding from one dumpsite can be moved around amount the other dumps listed in the year's program. Supporting documentation is attached to this response.

It should be noted that upon completion of all three dumps listed on the program for 2008, all inspection reports, photos, receipts and expenditures were reviewed and verified by the Grant Administrator on January 9, 2009, resulting in a balance of \$16,974.15 unspent funds and with Fiscal Court approval returned on January 27, 2009. The successful completion of this 2008 Grant resulted in subsequent approval of our 2009 application and award. Supporting documentation is attached to this response.

Auditor Reply: The APA received an allegation concerning the Garmon/Perry Dumpsite cleanup and performed procedures to follow-up on that allegation. The APA recommends that EPPC review to confirm all grant requirements were met and determine if any funds should be reimbursed to the state.

2008-12 Fiscal Court Should Reimburse The Kentucky Environmental And Public Protection Cabinet \$7,870 For Unexpended 2007 Litter Abatement Grant Funds Resulting From Unallowable In-Kind Expenditures

During our review of grants, we noted the Fiscal Court charged unallowable in kind expenditures to the 2007 litter abatement grant. Litter abatement grants are awarded on a calendar year basis. Allowable in kind expenditures for this grant are for salaries of county workers and use of equipment to clean up public roadside litter.

Auditors reviewed the 2007 litter abatement grant log and compared it to the county road workers log for the same period and noted the following unallowable expenditures:

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2008
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2008-12 Fiscal Court Should Reimburse The Kentucky Environmental And Public Protection Cabinet \$7,870 For Unexpended 2007 Litter Abatement Grant Funds Resulting From Unallowable In-Kind Expenditures
 (Continued)

38 instances of costs charged where county road workers cleaned and emptied garbage cans at three public county parks. Not a public roadside litter clean up.	\$ 6,854
3 instances of costs charged for holidays (Labor day, Memorial day, Veterans day) when no county workers worked.	480
14 instances of costs charged for county workers conducting activities such as mowing, trimming trees, burning brush, setting up swings at parks, moving items, and fixing a mail box. Not a public roadside litter clean up.	2,527
12 instances of costs charged where no documentation in road workers log to support any litter abatement.	2,899
6 instances of personnel costs charged for community service workers (inmates). Inmates are not county workers and do not get paid.	709
Total unallowable in kind expenditures charged on litter abatement grant log	\$13,469

Auditors deducted the unallowable in kind expenditures from the 2007 litter abatement grant log to arrive at the total allowable in kind expenditures:

Total in kind expenditures charged per litter abatement grant log	\$31,528
Less: Unallowable in kind expenditures	(13,469)
Total Allowable in kind expenditures	\$18,059

Auditors recalculated the grant in kind expenditures as follows:

Total 2007 litter abatement award	\$25,929
Less: Allowable in kind expenditures	(18,059)
Unexpended 2007 litter abatement grant to be reimbursed to KY EPPC	\$ 7,870

We recommend that the Fiscal Court reimburse the Kentucky Environmental and Public Protection Cabinet \$7,870 for unexpended 2007 litter abatement grant funds. In addition, we recommend that any future litter abatement grants be handled properly in accordance with allowable in kind expenditures.

County Judge/Executive Greg Wilson's Response: The person responsible for compiling this information is no longer employed.

It should be noted that had the auditor communicated with the County's Solid Waste Coordinator she would have been informed that litter abatement work reports/logs are kept separately from road department activities, and that Metcalfe County Lake Road (1.1 miles) and Sulphur Well Park Road (.13 mile) are county roads. These roads are very heavily traveled and littered. Also, had the Solid Waste Coordinator been consulted, the auditor would have been informed that the labor documented in 2007 did not include the employee fringe benefits which is another allowable in kind expenditure that can be reported.

Auditor Reply: As noted in the comment, discrepancies were discovered between the grant log and the county road worker log, resulting in the questionable cost.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

METCALFE COUNTY FISCAL COURT

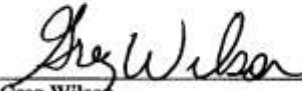
**For The Fiscal Year Ended
June 30, 2008**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
METCALFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The Metcalfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Greg Wilson
Metcalfe County Judge/Executive



Vickie Stephens
Metcalfe County Treasurer

